



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

December 12, 2013

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: SHERIFF'S DEPARTMENT – BILLING AND COLLECTIONS REVIEW

We have completed a review of the Sheriff's Department (Sheriff's or Department) billing and collection processes. The Sheriff's bills and collects revenue for a variety of services to other governmental agencies and the public, including inmate housing, and law enforcement services for contract cities or special events. These functions are currently performed by the Special Accounts Unit within the Administrative Services Division. Our review included areas such as invoicing for services provided, collecting delinquent accounts, writing off uncollectable accounts, and aging and reporting receivables. We also interviewed Sheriff's personnel, and reviewed a sample of invoices.

Summary of Findings

We noted that the Sheriff's appropriately ages its receivables and reconciles them to the County's electronic Countywide Accounting and Purchasing System (eCAPS). However, the Department needs to strengthen controls in other billing and collection areas. The following are examples of areas for improvement:

- The Sheriff's should ensure that accurate billing information is provided to staff responsible for preparing invoices. We noted that for nine (36%) of the 25 invoices reviewed, totaling approximately \$1.7 million, the invoice either did not agree with the contract terms, included unauthorized charges, or contained incorrect billing rates. This resulted in uncollected revenue totaling \$31,000.

The Sheriff's attached response indicates that they will deliver a memo to all operational unit commanders advising them of the importance of generating timely and accurate billing information, and suggesting that units establish a quality review procedure to reduce the potential for error.

- The Sheriff's should bill for services as soon as allowable. We noted that four (16%) of the 25 invoices reviewed, totaling \$1.5 million, were prepared an average of 108 days after services were performed.

The Sheriff's attached response indicates that the Department will ensure that staff generate invoices within the time frame specified by agreement terms and pursuant to the receipt of accurate and thorough billing information.

- The Sheriff's should promptly follow up on delinquent receivables. We noted that for seven (70%) of the ten delinquent receivables from government agencies, totaling \$1.9 million, the Department did not submit notices timely. Specifically, the Department sent five delinquent account notices an average of 32 days late, and did not submit notices for the remaining two receivables. In addition, for all six delinquent private entity receivables reviewed, totaling \$33,000, the Department did not make appropriate collection attempts and refer uncollectable accounts to the Treasurer and Tax Collector timely.

The Sheriff's attached response indicates that the Department has discussed the importance of sending delinquent notices to public entity clients within 15 days following the payment due date and, for private entity receivables, has developed a spreadsheet to track collection attempts and to monitor delinquent accounts referred for collection.

- The Sheriff's should enforce late payment interest penalties where applicable. We noted that for all four past due invoices reviewed, where the contracts included late payment penalties, the Department did not enforce them. This resulted in a loss of approximately \$125,000 in revenue.

The Sheriff's attached response indicates that the Department will enforce late payment interest penalties when applicable.

- The Sheriff's should ensure that advance deposits/retainer fees are recorded into a trust/deferred revenue account and only posted to an earned revenue account after the revenue is earned. We noted that the Sheriff's inappropriately posted advanced deposits/retainer fees, totaling \$60,000, to an earned revenue account, resulting in misstated revenue and account balances.

The Sheriff's attached response indicates that the Department will record advance deposits and retainer fees into trust and transfer the appropriate portion after the revenue is earned.

Although this is a review of the Sheriff's billing and collections processes, we recommend that other County departments review the findings in this report and ensure the necessary controls are in place.

Details of these and other findings and recommendations are included in the attached report (Attachment I).

Review of Report

We discussed our report with Sheriff's management. The attached response (Attachment II) indicates general agreement with our findings and recommendations.

We thank Sheriff's management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS:MP

Attachments

c: William T Fujioka, Chief Executive Officer
Leroy D. Baca, Sheriff
Mark J. Saladino, Treasurer and Tax Collector
Department Heads
Public Information Office
Audit Committee

SHERIFF'S DEPARTMENT BILLING AND COLLECTIONS REVIEW

Background

We have completed a review of the Sheriff's Department (Sheriff's or Department) billing and collection processes. The Sheriff's Special Accounts Unit (SAU) bills for a variety of services provided to governmental agencies and the public, including inmate housing for State responsible prisoners, and police services for contract cities or special events. In Fiscal Year (FY) 2012-13, the Sheriff's billed approximately \$410 million for its services.

Scope

We reviewed the Sheriff's billing, collection, and reporting practices for compliance with County and Departmental policies and procedures. Our review included interviewing Sheriff's personnel, evaluating billing and collection processes, and reviewing a sample of invoices.

COMMENTS AND RECOMMENDATIONS

Billing and Collections

Invoice Accuracy

County Fiscal Manual (CFM) Section 9.1.3 requires departments to ensure that all fees are authorized and accurate. The SAU recovers costs by billing for services based on information and contract terms provided by various departmental units (e.g., the Sheriff's stations and the Contract Law Enforcement Bureau), and based on rates established by the Auditor-Controller's (A-C) Accounting Division.

We noted that nine (36%) of the 25 invoices reviewed contained errors. Specifically:

- For three invoices, the Department billed for services, totaling \$1.6 million, that did not comply with the contract payment terms. Specifically, in one instance, the Department invoiced start-up costs for police services nine months before signing the contract. In the other two instances, the Department invoiced for police and transportation services before the services had been completed.
- For two invoices, the Department billed for a liability insurance surcharge, totaling \$110,000, that the Board of Supervisors had suspended.
- For four invoices, the Department did not use the correct billing rates for police services, resulting in under billings totaling \$31,000.

Sheriff's management indicated that these billing errors occurred because departmental units did not provide the SAU with accurate and timely billing information. To ensure that invoices comply with contract terms and established rates, Sheriff's management should ensure that departmental units provide SAU with timely and accurate billing information.

Recommendations

Sheriff's Department management:

- 1. Ensure that departmental units provide the Special Accounts Unit with timely and accurate billing information.**
- 2. Ensure staff investigate the exceptions identified, and refund overpayments and/or recover underpayments if appropriate.**

Invoice Timeliness

CFM Section 9.1.3 states that departments should bill for services as soon as allowable to maximize cash flow. We reviewed 25 invoices and noted that four (16%), totaling \$1.5 million, were prepared an average of 108 days after services were provided. To maximize cash flow, Sheriff's management should ensure that staff bill for services as soon as allowable.

Recommendation

- 3. Sheriff's Department management ensure staff bill for services as soon as allowable.**

Public Entity Collections

For services provided to public entities, CFM Section 10.2.12 requires departments to send delinquent account notices to the entities receiving the services. The Department's policy is to send these notices within 15 days after the due date. As of June 30, 2013, the Sheriff's public entity receivables past due totaled approximately \$18.1 million.

We reviewed ten delinquent public entity receivables and noted that seven (70%) delinquent account notices, totaling \$1.9 million, were not sent timely. Specifically, we noted five instances where the Department sent delinquent account notices an average of 32 days late. In the other two instances, the Department did not send a delinquent account notice at all for receivables that averaged 370 days past due. Sheriff's management should ensure staff send delinquent account notices to all public entities within 15 days after the due date to ensure that payments are received as timely as possible.

Recommendation

- 4. Sheriff's Department management ensure staff send delinquent account notices to public entities within 15 days after the due date.**

Private Entity Collections

For services rendered to private entities, CFM Section 10.2.1 states that departments should make at least three collection attempts within 45 days after the invoice's due date. In addition, CFM Section 10.2.2 states that departments should send delinquent receivables to the Treasurer and Tax Collector (TTC) for collection after the invoice is 60 days past due. As of June 30, 2013, the Sheriff's past due private entity receivables totaled approximately \$200,000.

We noted that for all six of the delinquent receivables reviewed, totaling \$33,000, the Sheriff's did not make at least three collection attempts within 45 days after each invoice's due date as required. In addition, the Department did not send the delinquent receivables to TTC when invoices reached 60 days past due. Specifically, three receivables were sent to TTC an average of 380 days late, and the remaining three had not been sent to TTC at all even though they averaged 200 days past due.

Recommendation

- 5. Sheriff's Department management ensure that for all private entity delinquent accounts, staff make at least three collection attempts within 45 days after each invoice's due date, and send delinquent receivables to the Treasurer and Tax Collector 60 days after the invoice's due date.**

Late Payment Charges

The Sheriff's maintains contracts with over 100 public and private entities for law enforcement services or special programs. Most of these contracts contain provisions for the Department to charge interest if payment is not received within 60 days of the invoiced date. CFM Sections 9.1.2 and 9.1.3 state that departments should maximize and aggressively pursue anticipated revenue.

We reviewed four past due invoices for contract services provided and noted that for all four the Department did not enforce late payment interest penalties. This resulted in a loss of approximately \$125,000 in revenue.

Recommendation

- 6. Sheriff's Department management enforce late payment interest penalties for past due invoices when applicable.**

Deposits and Retainer Fees

For certain billable services to public and/or private entities (i.e., training for outside agencies, providing security for movie productions, etc.), the Sheriff's requires advance deposits/retainer fees before providing services. CFM Section 9.1.6 states that departments must deposit advanced funds into a trust/deferred revenue account until the revenue is earned (typically when the services are provided). When the revenue is earned, the funds should be transferred from the trust account to the revenue account.

Two of the eight invoices sampled were for deposits/retainer fees, totaling \$60,000. We reviewed both invoices and noted that the Sheriff's inappropriately included the deposit/retainer fees collected as earned revenue even though the Department had not provided the contracted services. As a result of recognizing the revenue early, the Department also made a number of other accounting errors for these transactions including incorrect receivable write-offs and trust account overstatements. We provided details of these exceptions to Sheriff's management and they indicated that they would take action to address the issues identified.

Recommendations**Sheriff's Department management:**

- 7. Ensure that advance deposits and retainer fees are recorded into a trust/deferred revenue account and are only posted to an earned revenue account after the revenue is earned.**
- 8. Correct the accounting errors that resulted from the early recognition of revenue from advance deposits/retainer fees.**

Year-end Accounting

CFM Section 10.3.6 states that prior to fiscal year-end departments should review their current year receivables and take appropriate action (i.e., write-off uncollectible receivables, notify the A-C's Accounting Division of any collectible receivables to carry forward into the following fiscal year, etc.).

We noted that the Department allows all receivables to automatically carry forward at fiscal year-end, and reviews only those receivables that are still open at the end of the second fiscal year. The Department's process potentially overstates the amount of truly collectible receivables. We reviewed ten receivables that were automatically carried forward and noted seven (70%) instances where the receivable remained unpaid the following year. While the Department analyzed the receivables and closed them at the end of the second fiscal year, this analysis should have been conducted at the end of the first fiscal year.

To ensure that the Department accurately reports its receivables, Sheriff's management should review current year receivables and take appropriate action prior to the fiscal year-end.

Recommendation

- 9. Sheriff's Department management review current year receivables and take appropriate action prior to the fiscal year-end.**

eCAPS Security

The County's electronic Countywide Accounting and Purchasing System (eCAPS) allows authorized departmental personnel to initiate and approve transactions online. The CFM specifies that each eCAPS user's access needs to be based upon the type of transaction (e.g., deposit permit, cash transfer, etc.) each user's duties entail. CFM Section 10.3.1 establishes minimum requirements for approver roles, and states that users cannot have both data entry and approval capabilities. Departments should periodically review their eCAPS users' access for applicability to their current duties, and appropriate separation of duties, to reduce the risk of abuse.

We noted that the Sheriff's does not periodically review their eCAPS users' access as required. We reviewed the Sheriff's eCAPS user list and noted that 13 users have approval capabilities even though they do not meet the minimum requirements. In addition, four users have both data entry and approval capabilities, which is also prohibited.

To minimize the risk of fraud and abuse, Sheriff's management should immediately correct the identified issues and periodically review the Department's eCAPS user list to ensure compliance with CFM requirements.

Recommendation

- 10. Sheriff's Department management immediately correct the identified issues and periodically review the Department's electronic Countywide Accounting and Purchasing System user list to ensure compliance with County Fiscal Manual requirements.**

Documentation Retention

CFM Sections 10.2.11 and 10.3.0 state that uncollectable receivables should be written off, and departments should keep documentation to support the write-off for at least five years. In addition, CFM Section 9.1.6 states that departments must keep documentation to support invoice charges for at least five years.

We noted that for two (20%) of ten write-offs reviewed, the Department could not provide documentation to support write-offs totaling \$175,000. In addition, for two (8%)

of 25 invoices reviewed, the Department could not provide documentation to support invoice charges totaling \$100,000.

Recommendation

11. Sheriff's Department management ensure that staff obtain all documentation that supports write-offs and/or invoice charges, and retain the documentation for at least five years.



LEROY D. BACA, SHERIFF

County of Los Angeles
Sheriff's Department Headquarters
4700 Ramona Boulevard
Monterey Park, California 91754-2169



October 8, 2013

The Honorable Board of Supervisors
County Of Los Angeles
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Supervisors:

**AMENDED RESPONSE TO THE LOS ANGELES COUNTY SHERIFF'S
DEPARTMENT'S AUDITOR-CONTROLLER'S REVENUE
BILLING AND COLLECTIONS REVIEW REPORT**

The Auditor-Controller (AC) has requested that the Los Angeles County Sheriff's Department (Department) amend its response dated September 30, 2013, to the Board, to accurately reflect the timeframe in which the Auditor-Controller's review of the Department's billing and collection processes were performed.

For the period covered by the audit, Fiscal Years 2009-10 and 2010-11, the Department billed approximately \$487 million and \$510 million, respectively, for the two fiscal periods covering a variety of services to governmental and public agencies. The Department is in general agreement with the report findings and has implemented or initiated corrective actions to address the recommendations in the report.

Attached is the Department's response to the AC's billing and collection review recommendations.

If there are additional questions regarding the Department's response, please contact Division Director Glen Dragovich at (323) 526-5191.

Sincerely,

A handwritten signature in blue ink, appearing to read "Leroy Baca", written over a horizontal line.

LEROY D. BACA
SHERIFF

A Tradition of Service

Attachment

**AUDITOR-CONTROLLER'S BILLING AND COLLECTION REVIEW OF THE
SHERIFF'S DEPARTMENT**

RECOMMENDATIONS AND SHERIFF'S DEPARTMENT RESPONSES

BILLINGS AND COLLECTIONS

INVOICE ACCURACY

RECOMMENDATION 1:

Sheriff's management ensure that Departmental Units provide the Special Accounts Unit with timely and accurate billing information.

Sheriff's Response to Recommendation 1: Agree

The Special Accounts Unit will prepare and deliver a memo to all operational unit commanders advising them of the importance of generating timely and accurate billing information for their respective Unit. The memo will suggest that units establish a quality review procedure to reduce the potential for error.

RECOMMENDATION 2:

Sheriff's management ensure staff investigate the exceptions identified, and refund overpayments and/or recover the underpayments if appropriate.

Sheriff's Response to Recommendation 2: Agree

The Special Accounts Unit is cognizant of, and agrees to routinely monitor billing rates, especially where interim rates are used until a permanent rate is developed with finalized cost information. When interim rates are used, the Special Accounts Unit makes the necessary billing adjustment on subsequent invoices, including reimbursements supplemental billings as appropriate to ensure proper cost recovery.

INVOICE TIMELINESS

RECOMMENDATION 3:

Sheriff's management ensure staff bill for services as soon as possible.

Sheriff's Response to Recommendation 3: Agree

The Special Accounts Unit will ensure that that responsible staff generates invoices within the time frame specified by the agreement terms, and pursuant to the receipt of accurate and thorough billing information from the operational unit providing the service.

PUBLIC ENTITY COLLECTIONS

RECOMMENDATION 4:

Sheriff's management ensure staff send Delinquent Account notices to public entities within 15 days after the due date.

Sheriff's Response to Recommendation 4: Agree

The Special Accounts Unit manager has stressed to responsible billing staff the importance of sending delinquent notices to public entity clients within 15 days following the original payment due date.

PRIVATE ENTITY COLLECTIONS

RECOMMENDATION 5:

Sheriff's management ensure that for all private entity delinquent accounts, staff make at least three collection attempts within 45 days after each invoice's due date, and send delinquent receivables to the Treasurer and Tax Collector 60 days after the invoice's due date.

Sheriff's Response to Recommendation 5: Agree

The Special Accounts Unit's Billing Section has developed a spreadsheet to track the number of collection attempts sent within the prescribed 45 day period after the payment due date. The spreadsheet will be used as an indicator of aging Accounts Receivable performance and serve as a monitoring tool for delinquent accounts referred for collection.

LATE PAYMENT CHARGES

RECOMMENDATION 6:

Sheriff's management enforce late payment interest penalties for past due invoices when applicable.

Sheriff's Response to Recommendation 6: Agree

The Special Accounts Unit will calculate and enforce late payment interest penalties on private and public entity clients when applicable, pursuant to contractual and policy guidelines.

DEPOSITS AND RETAINER FEES

RECOMMENDATION 7:

Sheriff's management ensure that advance deposits and retainer fees are recorded into a trust/deferred revenue account and are only posted to an earned revenue account after the revenue is earned.

Sheriff's Response to Recommendation 7: Agree

Special Accounts Unit will record all advance deposit payments for private and public entity contract services, witness fees, and attorney fee retainers into trust, and transfer the appropriate portion to revenue only after service is provided/expense is incurred and revenue is earned.

RECOMMENDATION 8:

Sheriff's management correct the accounting errors that resulted from the early recognition of revenue from advance deposits/retainer fees.

Sheriff's Response to Recommendation 8: Agree

The recording of unearned revenue will be corrected in eCAPS to the extent permitted by the system.

YEAR-END ACCOUNTING

RECOMMENDATION 9:

Sheriff's management review current year receivables and take appropriate action prior to the fiscal year-end.

Sheriff's Response to Recommendation 9: Agree

The Special Accounts Unit will continue to actively monitor the status of receivables, generate invoices as soon as practicable after receiving all pertinent billing information, and accrue receivables for which payment is expected during the subsequent fiscal year.

ECAPS SECURITY

RECOMMENDATION 10:

Sheriff's management should correct the identified issues and periodically review the Department's eCAPS user list to ensure compliance with CFM requirements.

Sheriff's Response to Recommendation 10: Agree

The Special Accounts Unit will monitor and observe the separation of eCAPS roles and responsibilities between the Cashiering & Trust and the Revenue & Billing Sections. To the greatest extent permitted by the payroll titles assigned within each section, Special Accounts will also assign eCAPS user roles in compliance with the prescribed County Fiscal procedures.

DOCUMENTATION RETENTION

RECOMMENDATION 11:

Sheriff's management ensure that staff obtain all documentation that supports write-off and/or invoice charges, and retain the documentation for at least five years.

Sheriff's Response to Recommendation 11: Agree

Special Accounts Unit will retain records on-site for up to one year, and off-site archival storage for 5 years, following the date when documentation was created.